Fortum

Company report

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This report is a summary translation of the report "Euroopan energiakriisin keskiössä" published on 08/26/2022 at 7:30 am.

At the heart of Europe's energy crisis

We reiterate our Reduce recommendation for Fortum with a EUR 11.0 target price after its Q2 report. The company's Q2 result was good operationally and the reported figures were better than expected, but the EUR 5.7 billion loss is still nothing to celebrate. Fortum's situation is twofold: On one hand, the Generation segment could post record results in the coming years if electricity prices remain at their peak, but on the other, Uniper's situation is messy at least until the German stabilization package is finalized. In principle, we are attracted by the value at the heart of Fortum, but there are too many uncertainties. There may be a fair weather after the storm, but first the damage caused by the storm must be assessed.

Core business rolls on despite everything

In Q2, Fortum's comparable EBITDA and operating profit were EUR 920 million and EUR 574 million respectively, exceeding our own forecasts by a margin of about 8%. The clearest over-performance came from the Generation segment, with a comparable operating profit of EUR 294 million (vs. forecast 273 MEUR). Despite the high hedging ratio, the electricity price achieved by the Generation segment in the Nordic countries in Q2 was €52.3/MWh, well above our forecast of €48/MWh. According to the company, physical optimization was a record success in Q2. Fortum's reported Q2 operating result (EUR -9.1 bn) included a total of EUR -9.7 billion as items affecting comparability. This can be roughly divided into three main parts: 1) the anticipated losses of EUR 6.5 billion for Uniper due to gas supply restrictions, 2) the changes in the fair value of derivatives totaling ca. EUR 4.8 billion (in addition to the first one) and 3) the gain of EUR 643 million on the sale of Fortum's district heating business in Oslo. Fortunately for Fortum, part of Uniper's huge loss went to minority interests and tax benefits, so the net result for Q2 was a loss of EUR 5.7 billion.

Bbalance sheet down in the dumpster, but there is no immediate emergency

Fortum Group's equity at the end of Q2 was EUR 1.3 billion, which is extremely low considering the balance sheet total of over EUR 230 billion. Nevertheless, the rating agencies mainly monitor interest-bearing debt in relation to free cash flow, which is currently at a good level (this will change when Uniper's imputed losses become operational). Another headache is caused by hedge-related collateral requirements, which pushed Q2's already weak cash flow to a negative EUR 2.4 billion. There were no material surprises in Fortum's outlook, but Generation's hedging prices didn't rise quite as fast as we would have expected at current electricity prices. Our earnings forecasts for next year are down around 6% with the inclusion of the Generation segment, but we still expect the business to deliver top results in the coming years. There is also uncertainty here, because the electricity derivatives market is in disarray and the current wild levels (close to €200/MWh in the Nordic countries) don't necessarily reflect the actual situation.

Waiting for the storm to calm down

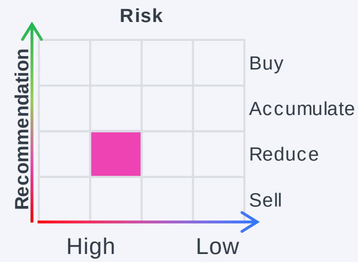
Fortum's core is undoubtedly very valuable and, in principle, at its current market cap of just over EUR 9 billion, heavily undervalued. However, there are too many uncertainties, at least until Uniper's situation becomes clearer with the finalization of the German stabilization package (see page 5 of the report for more details). We would not be surprised if Germany continues to try to negotiate a better (more popular) solution for itself, which would probably not be good for Fortum. At the same time, Fortum seems to be stuck in Russia too. As Uniper, and therefore Fortum, is dependent on external factors, the risks remain in an extreme position and visibility on developments is weak. There may be a fair weather after the storm, but first you must get out of the storm in one piece.

Recommendation

Reduce
(previous Reduce)

11.00 EUR
(previous EUR 11.00)

Share price:
10.32



Key figures

	2021	2022e	2023e	2024e
Revenue	112400	177787	161487	145900
growth-%	129%	58%	-9%	-10%
EBIT adj.	2536	-6699	1480	2405
EBIT-% adj.	2.3 %	-3.8 %	0.9 %	1.6 %
Net Income	739	-7158	948	1506
EPS (adj.)	2.00	-2.21	1.07	1.69
P/E (adj.)	13.5	neg.	9.7	6.1
P/B	2.0	2.7	2.1	1.6
Dividend yield-%	4.2 %	0.0 %	0.0 %	4.8 %
EV/EBIT (adj.)	12.9	neg.	16.6	8.8
EV/EBITDA	47.2	neg.	8.7	5.6
EV/S	0.3	0.2	0.2	0.1

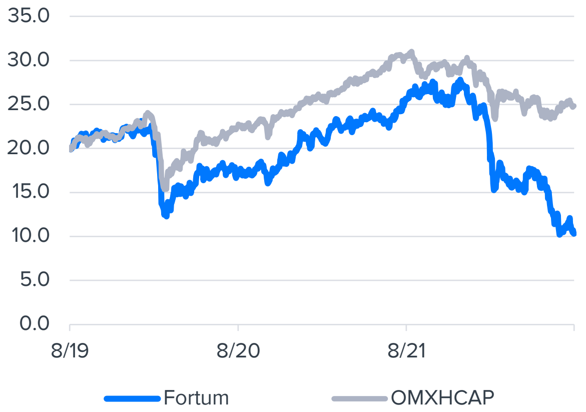
Source: Inderes

Guidance

(Adjusted)

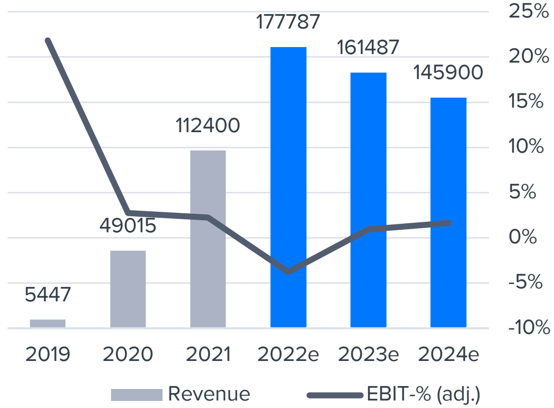
The Generation segment's Nordic generation hedges: approximately 80% at EUR 38 per MWh for the remainder of 2022, and approximately 60% at EUR 37 per MWh for 2023.

Share price



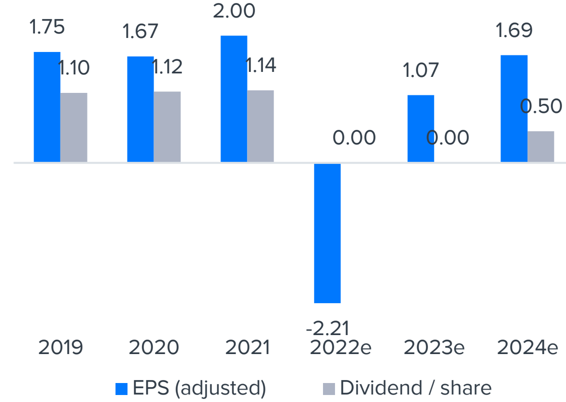
Source: Millistream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Uniper overcoming the energy crisis is key
- Removal of Russia risks as part of the exit from the country
- Improving the investment profile
- Improving operational efficiency
- Successful investments and divestments in accordance with the strategy
- Sustainable increase in the price of electricity, e.g., through higher prices of emission allowances
- New potential from a possible rise in the hydrogen economy

Risk factors

- Uncertainties of the Uniper stabilization package and the fate of Fortum's EUR 8 billion financing
- Huge losses generated for Uniper from the end of Russian gas flows
- Risks related to the financing provided to Uniper
- Russian war in Ukraine and related cycle of sanctions, possible new write-downs
- A drop in electricity prices would ultimately be reflected in the result, despite hedging
- Unfavorable regulatory developments in the Nordic countries, Europe or Russia

Valuation	2022e	2023e	2024e
Share price	10.3	10.3	10.3
Number of shares, millions	888.3	888.3	888.3
Market cap	9163	9163	9163
EV	26892	24550	21082
P/E (adj.)	neg.	9.7	6.1
P/E	neg.	9.7	6.1
P/FCF	neg.	2.9	2.1
P/B	2.7	2.1	1.6
P/S	0.1	0.1	0.1
EV/Sales	0.2	0.2	0.1
EV/EBITDA	neg.	8.7	5.6
EV/EBIT (adj.)	neg.	16.6	8.8
Payout ratio (%)	0.0 %	0.0 %	29.5 %
Dividend yield-%	0.0 %	0.0 %	4.8 %

Source: Inderes

Core business rolls on despite everything

Operating profit in the core business at a good level

In Q2, Fortum's comparable EBITDA and operating profit were EUR 920 million and EUR 574 million respectively, exceeding our own forecasts by a margin of about 8%. Uniper's contribution in Q2 was still operationally good at 263 MEUR, showing a clear improvement year-on-year. The profit contribution was slightly higher than we had anticipated. However, the clearest over-performance came from the Generation segment, with a comparable operating profit of EUR 294 million (vs. forecast 273 MEUR). Despite the high hedging ratio, the electricity price achieved by the Generation segment in the Nordic countries in Q2 was €52.3/MWh, well above our forecast of €48/MWh and the main reason behind the overperformance. According to the company, physical optimization was a record success in Q2, meaning that the company was able to take advantage of the strong fluctuations in electricity prices.

Among the other segments of "Old Fortum", City Solutions made an operating loss of EUR 36 million in Q2, well below our expectations (estimate: -7 MEUR). However, the reasons were as expected: the rising cost of energy hasn't been passed on to final prices. The Consumer Solutions segment achieved an operating result of EUR 21 million, in line with our expectations. The operating result of the Russia segment was EUR 57 million, well above our estimate (29 MEUR), which is basically due to the significant strengthening of the ruble during Q2. For the same reason, realized positive exchange differences on the value of Russian assets Fortum's equity remained positive at the end of Q2.

Reported result over 9 billion in the red as expected

After Uniper's previously published Q2 report, it was known that Fortum's reported result would be a huge loss. In fact, Fortum's Q2 operating result included a total of -EUR 9,715 million of items affecting comparability. This can be roughly divided into three main parts: 1) the anticipated losses of EUR 6.5 billion for Uniper due to gas supply restrictions, 2) the changes in the fair value of derivatives totaling ca. EUR 4.8 billion (in addition to the first one) and 3) the gain of EUR 643 million on the sale of Fortum's district heating business in Oslo. In reality, there were more items, and the adjustments were slightly different from those made by Uniper. We understand that this was because Fortum had already taken some write-downs on its Russian operations.

In principle, the item related to changes in the fair value of derivatives is transitory and its effect is eliminated when the products are delivered. However, due to Uniper's ambiguous proxy hedges, we can't be sure of this, although as such we have confidence in Fortum's ability to have sensible hedging. In any case, Fortum's Q2 reported adjustments were slightly lower than we expected (estimate EUR -10.3 bn). This largely explains the reported result beating the estimates.

The balance sheet down in the dumpster, but there is no immediate emergency

Fortum Group's equity at the end of Q2 was EUR 1.3 billion, which is extremely low considering the balance sheet total of over EUR 230 billion. However, the group's equity turning negative is not as dramatic as it sounds. Credit rating agencies pay more attention to interest-bearing debt relative to free cash flow, which in a highly simplified way is reflected in Fortum's reported ratio of net financial debt to comparable EBITDA. This was 0.8x at the end of Q2 when the company's target level is less than 2x. However, the figure will weaken sharply as Uniper's current accounting losses (i.e. 6.5 billion of reserves) become operational losses in the coming quarters. Another significant headache is caused by hedge-related collateral requirements, which pushed Q2's already weak cash flow to a negative EUR 2.4 billion.

Estimates	Q2'21	Q2'22	Q2'22e	Q2'22e	Consensus			Difference (%)	2022e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low		High	Act. vs. inderes	Inderes
Comparable EBITDA	348	920	852	866	852	-	879	8%	-5364
Comparable EBIT	35	574	532	469	126	-	568	8%	-6699
EBIT (reported)	-840	-9141	-9813	-9742	-9838	-	-9513	7%	-11892
EPS (reported)	-0.53	-6.40	-7.50	-8.00	-10.54	-	-6.93	15%	-8.06

Source: Inderes & Vara Research (consensus)

No major estimate changes

Outlook in line with expectations

Fortum does not provide financial guidance, but in practice the outlook is formed by the hedging levels and prices of the Generation segment. At the end of June 2022, roughly 80% of the Generation segment's estimated wholesale electricity sales in the Nordic countries were hedged at €38/MWh for the rest of 2022 and approximately 60% at €37/MWh for 2023 (Q1'22: 55% for €31/MWh).

Fortum's hedging levels were largely in line with expectations, but based on the current very high market prices, we expected even slightly higher levels, especially for 2023. Electricity futures for 2023 have recently been hovering close to €200/MWh in the Nordic countries. As a result, the steep hedging price increase in 2023 was slightly below our expectations, and our estimate of the average sales price for the Generation segment in 2023 fell slightly to around €72/MWh (was around €74/MWh). Otherwise, we only made minor adjustments to the estimates. In general, Fortum's situation is twofold: On one hand, the Generation segment could post record results in the coming years if electricity prices remain high, but on the other, the Uniper segment is making historic losses.

We already discussed Uniper's weak hedging prices in our previous update, but at the end of June 2022, around 70% of the Uniper segment's estimated wholesale electricity sales in the Nordic countries were hedged at €26/MWh for the rest of 2022, around 55% at €30/MWh for 2023 (Q1'22: 50% to €34/MWh) and around 25% at €33/MWh for 2024.

The most dramatic change in the outlook was seen in investments, when Fortum withdrew its investment outlook for 2022 for the time being and said it would publish an update "in due course". However, in the current situation, where the whole company's strategy is clearly in a state of flux due to the Uniper situation, this isn't surprising. For the time being, we haven't made any changes to investment expectations, as the fate of future cash flows is very unclear anyway.

The derivatives market for electricity is in disarray

On the Fortum outlook, we found it interesting that the company confirmed that the electricity derivatives market is currently in disarray. Due to huge volatility and high collateral requirements, trading has decreased, and liquidity has weakened, which is why Fortum is increasingly hedging with bilateral contracts outside the official Nasdaq trading platform. At the end of Q2, Fortum had around EUR 11 billion in collateral (although the company also had collateral debt).

Similarly, Fortum's customers are also reluctant to hedge with derivatives at the current peak prices, because if they eventually fall, they could have to pay very high collateral to maintain the hedges. At the same time, the overall price formation on the official trading platform may no longer reflect the true fundamentals of the electricity market, making it increasingly difficult to predict the future.

Estimate revisions	2022e	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	176230	177787	1%	160879	161487	0%	145278	145900	0%
EBITDA	-11280	-10557	-6%	2931	2830	-3%	3737	3760	1%
EBIT (exc. NRIs)	-6780	-6699	-1%	1581	1480	-6%	2380	2405	1%
EBIT	-12589	-11892	-6%	1581	1480	-6%	2380	2405	1%
PTP	-13834	-12630	-9%	1247	1157	-7%	2037	2076	2%
EPS (excl. NRIs)	-2.65	-2.21	-17%	1.15	1.07	-7%	1.66	1.69	2%
DPS	0.00	0.00	0%	0.00	0.00	0%	0.50	0.50	0%

Source: Inderes

Uniper’s stabilization package: Recap and clarifications

Uniper stabilization package recap

On July 22, 2022, Fortum and Uniper announced the German stabilization package for Uniper, which in a nutshell consists of the following points:

1) The German State will take a 30% equity stake in Uniper by subscribing approximately 157 million new shares at nominal value of EUR 1.70 per share. With a capitalization of EUR 267 million, Fortum's holding will drop from about 80% to 56%.

2) The German government has committed to make available further capital of up to EUR 7.7 billion against issuance of mandatory convertible instruments. The purpose of the financing is to cover losses arising from Uniper's gas supply business as Gazprom’s supply volumes decline considerably. Fortum has an option to convert its EUR 4 billion loan into new shares on the same terms. To our understanding, the subscription price and dilution depend on Uniper's share price, which fell sharply.

3) The German state-owned KfW bank will provide Uniper with an additional EUR 7 billion in liquidity support to strengthen the company’s financial position. In practice, this is used to finance the business during the interim period when the conversion of the next item isn’t yet possible.

4) In addition, the German government will introduce a mechanism that will allow Uniper to pass on 90% of the higher gas procurement costs to its customers from October 1, unless the German government takes a separate decision before then.

5) Under the stabilization package, the German government will provide additional support to Uniper, i.e,. cover Uniper's losses if they exceed EUR 7 billion. Germany is apparently committed to doing so without weakening other shareholders’ (incl. Fortum) economic situation (“economic dilution”).

A little more clarity on the package

The last "loss limitation" point in the previous list was again the focus of attention, and some new information was provided. In the past, we understand that Fortum has referred to this as "non-dilutive" financing of existing shareholders. Now Fortum's management elaborated that the term at the bottom of the stabilization package is actually "economic dilution". We understand that this means the financial position of shareholders must not deteriorate as a result of the financing.

In our view, this significantly broadens the scope to include possible additional debt, and hence a deterioration in Fortum's debt position. We think this improves the situation for Fortum, although we also think that the most likely way to arrange this "financing" would be to increase the price transmission mechanism mentioned in section 4 to 100%. This too has its problems, but we haven’t found an easy way to create a non-dilutive solution to compensate or limit losses in a meaningful way. Of course, additional debt wouldn’t have brought in equity either.

Another clarification, which we haven’t written about before, was the treatment of Uniper's other business results during the stabilization period. Previously, we have assumed that the EUR 7 billion cap applies specifically to Uniper's gas business and excludes other businesses. This is the case, but apparently during the stabilization period, after the EUR 7 billion threshold, the expected profits from other businesses will be used to compensate for the gas losses. For example, if the stabilization period were to last until the end of 2023, the expected profits from Uniper's other businesses would be used to compensate for losses in the gas business. Therefore, in practice, the group's effective result would be zero after the EUR 7 billion threshold. This is mildly negative if Uniper's other businesses were to start performing well in the energy crisis while the gas business continues its current trajectory.

Uncertainty persists

Fortum management's communication on the stabilization package inspired significantly more confidence than Uniper's management in its Q2 results, but the details are still being negotiated. As we assumed, the core issues have been agreed ("term sheet"), but the details are open. We are still particularly unsure about the solution and the instruments to be used for loss mitigation.

Although the German government is in principle a reliable negotiating partner, in this situation the solutions for Uniper are likely to be very unpopular and will be linked to huge increases in energy costs (gas). Therefore, Germany is likely to look for a way to stabilize Uniper in the most cost-effective and beneficial way for the wider society. We would not be surprised if Fortum were to be asked to take on additional responsibility to remedy the situation, even though a preliminary agreement has already been reached.

A degree of uncertainty over the stabilization package will remain until all the details have been resolved and the solution is implemented. This also casts a shadow of uncertainty over Fortum's EUR 8 billion financing of Uniper and thus Fortum's share price.

Waiting for the storm to calm down

The core has value...

Fortum's core business is currently at a theoretical strong discount, given a market cap of around EUR 9.4 billion and a moderate net financial debt of EUR 2.4 billion at the end of Q2. Fortum's Generation segment alone will make well over EUR 1 billion in operating profit this year and could well make EUR 2-3 billion in the coming years thanks to exceptionally high electricity prices. In this sense, we think Fortum is attractive at current levels, even if the Uniper holding is valued at zero and the Russian businesses are also found to be worthless.

... but there are too many uncertainties

The dire situation at Uniper and the still unclear stabilization package with Germany make the situation more challenging. If Fortum were to lose its EUR 8 billion financing to Uniper, the company's indebtedness would naturally look very different, and the balance sheet might even need new capital. At the same time, the valuation picture of Fortum's share would be turned on its head. Even now, Fortum's balance sheet is in the dumpster after the Uniper crisis, although the company's reported net financial debt is still very moderate. More and more capital is tied up in collateral requirements and in the case of Uniper we aren't sure whether the money will necessarily be fully recovered ("proxy hedge").

In the turmoil of the energy crisis, we also can't rule out extraordinary measures by governments that could be detrimental to Fortum. In Finland, the "windfall tax" hasn't been seriously discussed so far, but as the price of electricity rises, populism is also likely to raise its head. The situation in the electricity derivatives market, where fundamentals no longer seem to be driving the market, also adds an element of uncertainty.

On top of all this, Fortum is still stuck in Russia, where the company is making a profit on paper but may not be able to repatriate the profits. The company continued to sound optimistic about interest in its Russian business, but we find it difficult to see the valuation level rising to a reasonable level for a potential sale in the current environment.

Overall, we think it is justified to wait for the storm to calm down with a Reduce recommendation. The fate of Fortum still relies on external factors, so the risks are extreme, and we continue to urge investors to exercise extreme caution. There may be a fair weather after the storm, but first you have to get out of the storm in one piece.

Estimates live with the situation

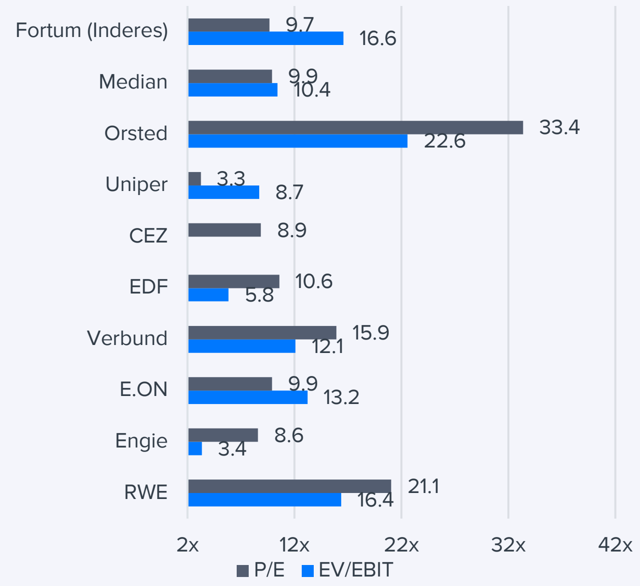
Investors should not currently rely on our earnings or balance sheet estimates, which don't account for the likely impact of the German stabilization package due to the very large range of possibilities. We have restored the DCF calculation as part of the report, but it's virtually impossible to assess the evolution of the balance sheet as it moves with energy prices.

In principle, Germany will balance Uniper's balance sheet and offset Uniper's huge losses, but before that we may see some special twists and turns. The dilution that Fortum faces is uncertain, but the most significant game changer, in our view, relates to the fate of the EUR 8 billion financing. Estimates, balance sheet and cash flows will be updated at the latest once the German stabilization package is agreed and starts to be implemented in practice. This will allow us to better assess how Fortum will weather the storm.

Valuation	2022e	2023e	2024e
Share price	10.3	10.3	10.3
Number of shares, millions	888.3	888.3	888.3
Market cap	9163	9163	9163
EV	26892	24550	21082
P/E (adj.)	neg.	9.7	6.1
P/E	neg.	9.7	6.1
P/FCF	neg.	2.9	2.1
P/B	2.7	2.1	1.6
P/S	0.1	0.1	0.1
EV/Sales	0.2	0.2	0.1
EV/EBITDA	neg.	8.7	5.6
EV/EBIT (adj.)	neg.	16.6	8.8
Payout ratio (%)	0.0 %	0.0 %	29.5 %
Dividend yield-%	0.0 %	0.0 %	4.8 %

Source: Inderes

Peer group valuation multiples (2023e)

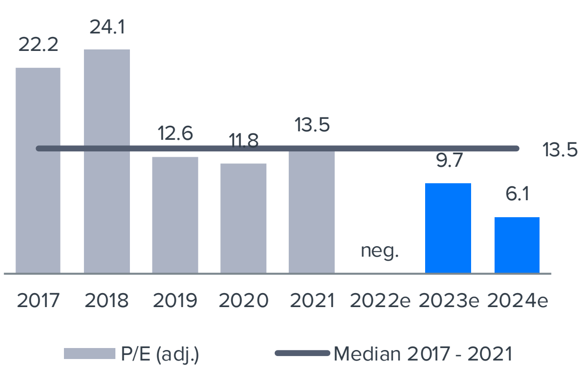


Valuation table

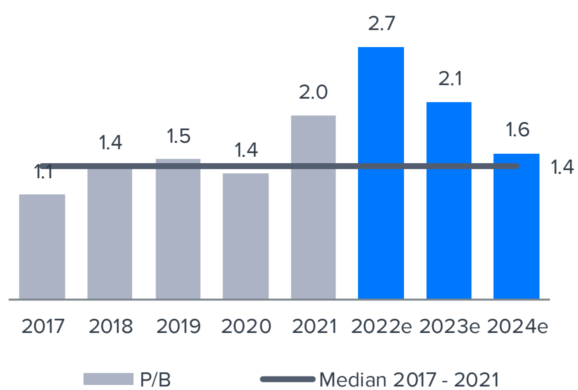
Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	16.5	19.1	22.0	19.7	27.0	**10.3**	**10.3**	**10.3**	**10.3**
Number of shares, millions	888.4	888.4	888.3	888.4	888.3	**888.3**	**888.3**	**888.3**	**888.3**
Market cap	14658	16968	19542	17501	23975	**9163**	**9163**	**9163**	**9163**
EV	13955	16805	18665	25567	32676	**26892**	**24550**	**21082**	**19508**
P/E (adj.)	22.2	24.1	12.6	11.8	13.5	**neg.**	**9.7**	**6.1**	**6.3**
P/E	16.9	20.1	13.2	9.6	32.5	**neg.**	**9.7**	**6.1**	**6.3**
P/FCF	neg.	10.0	46.5	neg.	neg.	**neg.**	**2.9**	**2.1**	**3.5**
P/B	1.1	1.4	1.5	1.4	2.0	**2.7**	**2.1**	**1.6**	**1.3**
P/S	3.2	3.2	3.6	0.4	0.2	**0.1**	**0.1**	**0.1**	**0.1**
EV/Sales	3.1	3.2	3.4	0.5	0.3	**0.2**	**0.2**	**0.1**	**0.1**
EV/EBITDA	8.6	10.0	11.0	9.5	47.2	**neg.**	**8.7**	**5.6**	**5.2**
EV/EBIT (adj.)	16.9	17.0	15.7	19.0	12.9	**neg.**	**16.6**	**8.8**	**8.2**
Payout ratio (%)	112.8 %	115.9 %	66.0 %	54.6 %	137.1 %	**0.0 %**	**0.0 %**	**29.5 %**	**30.6 %**
Dividend yield-%	6.7 %	5.8 %	5.0 %	5.7 %	4.2 %	**0.0 %**	**0.0 %**	**4.8 %**	**4.8 %**

Source: Inderes

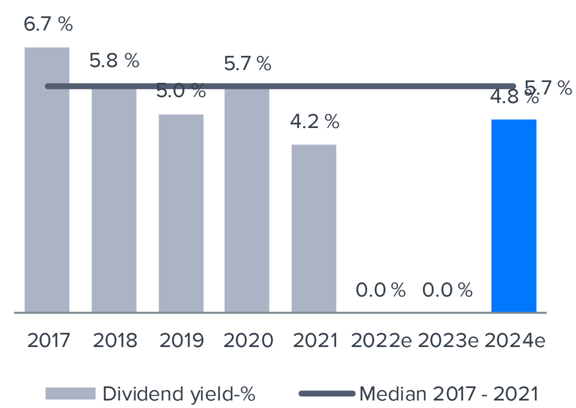
P/E (adj.)



P/B



Dividend yield-%



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		P/E		Dividend yield-%		P/B
Company	**MEUR**	**MEUR**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**
RWE	29368	37505	12.3	16.4	8.2	10.0	14.6	21.1	2.1	2.1	1.7
Engie	31527	23017	3.2	3.4	1.9	2.0	7.9	8.6	8.1	7.7	0.9
E.ON	23112	59863	13.0	13.2	7.8	8.0	9.7	9.9	5.8	6.0	1.8
Verbund	39466	43650	16.4	12.1	13.4	10.2	21.7	15.9	2.6	3.1	5.4
EDF	46347	42891	8.5	5.8	3.1	2.3		10.6	5.2	3.9	1.0
CEZ	22027						11.6	8.9	5.7	7.4	2.8
Enel	50274	87457	7.3	6.8	4.6	4.3	8.9	8.2	8.1	8.7	1.5
Uniper	2227	2817		8.7	1.6	1.7	2.8	3.3	7.0	14.7	0.5
Orsted	43357	45938	16.0	22.6	11.6	13.4	23.8	33.4	1.8	1.9	4.0
Fortum (Inderes)	**9163**	**26892**	**neg.**	**16.6**	**neg.**	**8.7**	**neg.**	**9.7**	**0.0**	**0.0**	**2.7**
Average			**10.9**	**11.1**	**6.5**	**6.5**	**12.6**	**13.3**	**5.1**	**6.2**	**2.2**
Median			**12.3**	**10.4**	**6.2**	**6.2**	**10.6**	**9.9**	**5.7**	**6.0**	**1.7**
Diff-% to median				***59%***		***41%***		***-3%***	***-100%***	***-100%***	***63%***

Source: Refinitiv / Inderes. NB: The market cap Inderes uses does not consider own shares held by the company.

Income statement

Income statement	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue	**49015**	**21493**	**17128**	**23701**	**50078**	**112400**	**43623**	**38237**	**35082**	**60845**	**177787**	**161487**	**145900**	**131911**
Generation	*2006*	*675*	*576*	*684*	*964*	*2899*	*710*	*722*	*747*	*1101*	*3280*	*4420*	*4062*	*3757*
City Solutions	*1075*	*418*	*256*	*202*	*426*	*1302*	*390*	*229*	*210*	*423*	*1252*	*1334*	*1361*	*1389*
Consumer Solutions	*1267*	*661*	*424*	*485*	*1052*	*2622*	*1168*	*856*	*682*	*1173*	*3880*	*3379*	*3453*	*3529*
Russia	*929*	*264*	*182*	*193*	*267*	*906*	*223*	*218*	*184*	*254*	*879*	*871*	*871*	*871*
Uniper	*44514*	*19770*	*15893*	*22411*	*47918*	*105992*	*41484*	*36487*	*33541*	*58354*	*169866*	*152880*	*137592*	*123832*
Other	*140*	*34*	*36*	*33*	*35*	*138*	*35*	*34*	*34*	*36*	*138*	*141*	*145*	*148*
Eliminations	*-916*	*-329*	*-239*	*-307*	*-584*	*-1459*	*-387*	*-309*	*-316*	*-496*	*-1509*	*-1539*	*-1585*	*-1617*
EBITDA	**2689**	**1653**	**-527**	**-2791**	**2358**	**693**	**-2082.0**	**-8795.0**	**75.1**	**245**	**-10556.5**	**2830**	**3760**	**3748**
Depreciation	-1090	-308	-313	-314	-346	-1281	-334	-346	-325	-330	-1335	-1350	-1355	-1366
EBIT (excl. NRI)	**1344**	**1171**	**35**	**260**	**1070**	**2536**	**-438**	**574**	**-6750**	**-85**	**-6699**	**1480**	**2405**	**2383**
EBIT	**1599**	**1345**	**-840**	**-3105**	**2012**	**-588**	**-2416**	**-9141**	**-250**	**-85**	**-11892**	**1480**	**2405**	**2383**
Generation	*722*	*269*	*195*	*245*	*401*	*1110*	*282*	*294*	*275*	*500*	*1351*	*2222*	*1964*	*1659*
City Solutions	*47*	*86*	*-4*	*-20*	*73*	*135*	*48*	*-36*	*-45*	*58*	*25*	*75*	*69*	*62*
Consumer Solutions	*90*	*36*	*19*	*13*	*-16*	*52*	*35*	*21*	*24*	*35*	*115*	*127*	*129*	*132*
Russia	*251*	*100*	*37*	*45*	*79*	*261*	*61*	*57*	*26*	*52*	*196*	*176*	*163*	*150*
Uniper	*363*	*711*	*-177*	*9*	*577*	*1120*	*-833*	*263*	*-7000*	*-700*	*-8270*	*-1000*	*200*	*500*
Other	*-129*	*-31*	*-35*	*-32*	*-44*	*-142*	*-31*	*-25*	*-30*	*-30*	*-116*	*-120*	*-120*	*-120*
Items affecting comparability	*255*	*174*	*-875*	*-3365*	*942*	*-3124*	*-1978*	*-9715*	*6500*	*0*	*-5193*	*0*	*0*	*0*
Share of associates' profit or loss	656	79	62	11	40	192	-190	-48	0	25	-213	30	30	30
Net financial items	-56	36	35	-40	76	107	-955	530	-50	-50	-525	-353	-359	-408
PTP	**2199**	**1460**	**-743**	**-3134**	**2128**	**-289**	**-3561**	**-8659**	**-300**	**-110**	**-12630**	**1157**	**2076**	**2005**
Taxes	-344	-150	84	1366	-1125	176	729	1302	70	32	2133	-259	-471	-454
Minority interest	-32	-218	185	1047	-162	852	610	1671	878	179	3338	50	-100	-101
Net earnings	**1823**	**1092**	**-474**	**-721**	**842**	**739**	**-2222**	**-5686**	**649**	**101**	**-7158**	**948**	**1506**	**1450**
EPS (adj.)	**1.67**	**0.94**	**0.09**	**0.19**	**0.78**	**2.00**	**-0.27**	**4.54**	**-6.59**	**0.11**	**-2.21**	**1.07**	**1.69**	**1.63**
EPS (rep.)	**2.05**	**1.23**	**-0.53**	**-0.81**	**0.95**	**0.83**	**-2.50**	**-6.40**	**0.73**	**0.11**	**-8.06**	**1.07**	**1.69**	**1.63**

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	**35604**	**49399**	**94364**	**74514**	**69659**
Goodwill	1069	1021	1021	1021	1021
Intangible assets	1739	1146	1146	1146	1146
Tangible assets	19367	19049	19214	19364	19509
Associated companies	2912	2461	2261	2261	2261
Other investments	7959	6477	6477	6477	6477
Other non-current assets	2402	17096	62096	42096	37096
Deferred tax assets	156	2149	2149	2149	2149
Current assets	**22206**	**100262**	**113809**	**80995**	**60145**
Inventories	1396	2275	3598	3269	2953
Other current assets	8998	65500	65500	35500	20500
Receivables	9504	24895	39377	35767	30856
Cash and equivalents	2308	7592	5334	6459	5836
Balance sheet total	**57810**	**149661**	**208173**	**155509**	**129803**

Source: Inderes

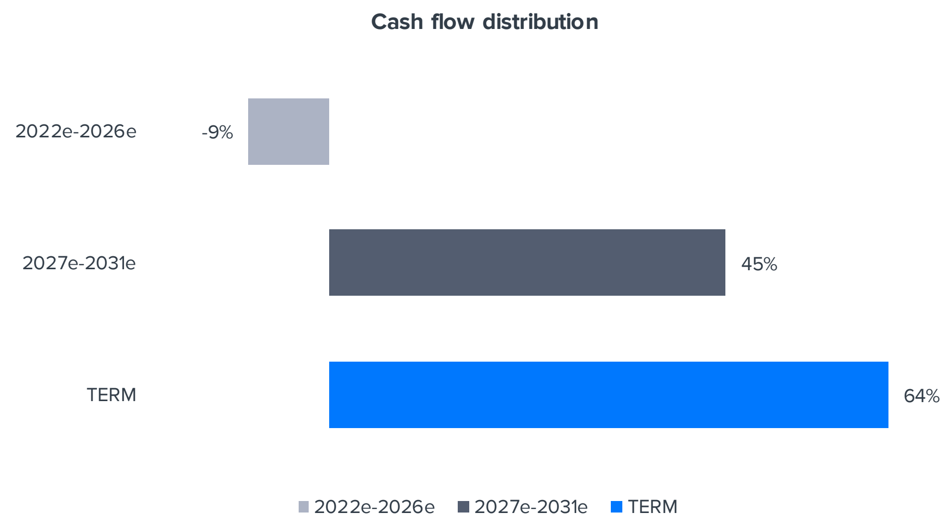
Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	**15577**	**13665**	**2374**	**3322**	**4828**
Share capital	3046	3046	3046	3046	3046
Retained earnings	10149	10062	1891	2839	4345
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	-242.0	-977.0	-1563.0	-1563.0	-1563.0
Minorities	2624	1534	-1000.0	-1000.0	-1000.0
Non-current liabilities	**22356**	**38070**	**95593**	**76423**	**69600**
Deferred tax liabilities	952	827	827	827	827
Provisions	8098	10298	10298	10298	10298
Long term debt	8785	8701	18224	19054	17231
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	4521	18244	66244	46244	41244
Current liabilities	**19877**	**97926**	**110207**	**75764**	**55376**
Short term debt	1877	8519	9816	7173	4358
Payables	9525	17462	28446	26645	24073
Other current liabilities	8475	71945	71945	41945	26945
Balance sheet total	**57810**	**149661**	**208173**	**155509**	**129803**

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	**-588**	**-11892**	**1480**	**2405**	**2383**	**2130**	**1905**	**1905**	**1943**	**1982**	**2002**	
+ Depreciation	1281	1335	1350	1355	1366	1473	1475	1477	1479	1480	1482	
- Paid taxes	-1943	2133	-259	-471	-454	-405	-375	-387	-397	-407	-419	
- Tax, financial expenses	30	-90	-81	-82	-94	-85	-72	-61	-59	-59	-59	
+ Tax, financial income	9	0	0	0	0	0	0	0	0	0	8	
- Change in working capital	-1365	-4822	2140	2655	933	440	4109	0	415	-87	-45	
Operating cash flow	**-2575**	**-13335**	**4629**	**5862**	**4134**	**3554**	**7041**	**2934**	**3380**	**2910**	**2968**	
+ Change in other long-term liabilities	15923	48000	-20000	-5000	0	0	0	0	0	0	0	
- Gross CAPEX	-13534	-46500	18500	3500	-1500	-1500	-1500	-1500	-1568	-1524	-1696	
Free operating cash flow	**-186**	**-11835**	**3129**	**4362**	**2634**	**2054**	**5541**	**1434**	**1812**	**1385**	**1272**	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	-186	-11835	3129	4362	2634	2054	5541	1434	1812	1385	1272	19791
Discounted FCFF		**-11541**	**2838**	**3680**	**2067**	**1499**	**3761**	**906**	**1064**	**757**	**646**	**10055**
Sum of FCFF present value		15730	27272	24434	20754	18687	17188	13427	12522	11458	10701	10055

Enterprise value DCF	**15730**
- Interesting bearing debt	-17220
+ Cash and cash equivalents	7592
+ Associated companies	2261
-Minorities	2716
-Dividend/capital return	-1013
Equity value DCF	**10066**
Equity value DCF per share	**11.3**

Wacc	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E)	35.0 %
Cost of debt	2.5 %
Equity Beta	1.80
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.0 %
Cost of equity	**10.6 %**
Weighted average cost of capital (WACC)	**7.5 %**



Summary

Income statement	2019	2020	2021	2022e	2023e
Revenue	5447	49015	112400	**177787**	**161487**
EBITDA	1693	2689	693	**-10557**	**2830**
EBIT	1118	1599	-588	**-11892**	**1480**
PTP	1728	2199	-289	**-12630**	**1157**
Net Income	1482	1823	739	**-7158**	**948**
Extraordinary items	-72	255	-3124	**-5193**	**0**

Balance sheet	2019	2020	2021	2022e	2023e
Balance sheet total	23364	57810	149661	**208173**	**155509**
Equity capital	13235	15577	13665	**2374**	**3322**
Goodwill	612	1069	1021	**1021**	**1021**
Net debt	5255	8354	9628	**22706**	**19768**

Cash flow	2019	2020	2021	2022e	2023e
EBITDA	1693	2689	693	**-10557**	**2830**
Change in working capital	-240	-785	-1365	**-4822**	**2140**
Operating cash flow	1340	1556	-2575	**-13335**	**4629**
CAPEX	-617	-20567	-13534	**-46500**	**18500**
Free cash flow	420	-7721	-186	**-11835**	**3129**

Valuation multiples	2019	2020	2021	2022e	2023e
EV/S	3.4	0.5	0.3	**0.2**	**0.2**
EV/EBITDA (adj.)	11.0	9.5	47.2	**neg.**	**8.7**
EV/EBIT (adj.)	15.7	19.0	12.9	**neg.**	**16.6**
P/E (adj.)	12.6	11.8	13.5	**neg.**	**9.7**
P/E	1.5	1.4	2.0	**2.7**	**2.1**
Dividend-%	5.0 %	5.7 %	4.2 %	**0.0 %**	**0.0 %**

Source: Inderes

Per share data	2019	2020	2021	2022e	2023e
EPS (reported)	1.67	2.05	0.83	**-8.06**	**1.07**
EPS (adj.)	1.75	1.67	2.00	**-2.21**	**1.07**
OCF / share	1.51	1.75	-2.90	**-15.01**	**5.21**
FCF / share	0.47	-8.69	-0.21	**-13.32**	**3.52**
Book value / share	14.62	14.58	13.66	**3.80**	**4.87**
Dividend / share	1.10	1.12	1.14	**0.00**	**0.00**

Growth and profitability	2019	2020	2021	2022e	2023e
Revenue growth-%	4%	800%	129%	**58%**	**-9%**
EBITDA growth-%	1%	59%	-74%	**-1623%**	**-127%**
EBIT (adj.) growth-%	21%	13%	89%	**-364%**	**-122%**
EPS (adj.) growth-%	120%	-4%	19%	**-211%**	**-148%**
EBITDA-%	31.1 %	5.5 %	0.6 %	**-5.9 %**	**1.8 %**
EBIT (adj.)-%	21.8 %	2.7 %	2.3 %	**-3.8 %**	**0.9 %**
EBIT-%	20.5 %	3.3 %	-0.5 %	**-6.7 %**	**0.9 %**
ROE-%	11.9 %	14.1 %	5.9 %	**-92.3 %**	**24.6 %**
ROI-%	9.9 %	10.3 %	-1.3 %	**-39.5 %**	**5.0 %**
Equity ratio	56.6 %	26.9 %	9.1 %	**1.1 %**	**2.1 %**
Gearing	39.7 %	53.6 %	70.5 %	**956.4 %**	**595.1 %**

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Accumulate The 12-month risk-adjusted expected shareholder return of the share is attractive

Reduce The 12-month risk-adjusted expected shareholder return of the share is weak

Sell The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
3/17/2020	Buy	15.00 €	13.31 €
4/27/2020	Buy	17.00 €	14.86 €
5/18/2020	Buy	17.50 €	14.92 €
7/21/2020	Buy	20.00 €	17.84 €
8/20/2020	Buy	20.00 €	17.02 €
11/18/2020	Buy	20.00 €	17.63 €
12/4/2020	Buy	20.00 €	18.30 €
2/15/2021	Accumulate	22.50 €	21.97 €
5/14/2021	Accumulate	24.00 €	22.74 €
8/18/2021	Accumulate	26.50 €	24.49 €
11/15/2021	Reduce	25.00 €	25.30 €
2/28/2022	Reduce	19.00 €	19.47 €
3/7/2022	Accumulate	16.00 €	15.26 €
4/27/2022	Reduce	16.00 €	15.63 €
5/13/2022	Reduce	16.00 €	15.31 €
6/21/2022	Accumulate	18.00 €	16.31 €
7/25/2022	Accumulate	13.00 €	11.36 €
8/18/2022	Reduce	11.00 €	11.41 €
8/23/2022	Reduce	11.00 €	10.47 €
8/26/2022	Reduce	11.00 €	10.32 €

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